

**REPORT OF THE AUDIT OF THE
FORMER BATH COUNTY
SHERIFF**

**For The Period
January 1, 2007 Through October 2, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER BATH COUNTY SHERIFF

**For The Period
January 1, 2007 Through October 2, 2007**

The Auditor of Public Accounts has completed the former Bath County Sheriff's audit for the period January 1, 2007 through October 2, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$9,472 from the prior year, resulting in excess fees of \$11,045 as of October 2, 2007. Revenues decreased by \$87,315 from the prior year and expenditures increased by \$77,843.

Report Comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits as of January 9, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,273,265

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT.....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	11
COMMENT AND RECOMMENDATION.....	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive
The Honorable Randall Armitage, Former Bath County Sheriff
The Honorable John Snedegar, Bath County Sheriff
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Bath County, Kentucky, for the period January 1, 2007 through October 2, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the period January 1, 2007 through October 2, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 22, 2008 on our consideration of the former Bath County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carolyn Belcher, Bath County Judge/Executive
The Honorable Randall Armitage, Former Bath County Sheriff
The Honorable John Snedegar, Bath County Sheriff
Members of the Bath County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Bath County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 22, 2008

BATH COUNTY
 RANDALL ARMITAGE, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2007 Through October 2, 2007

Revenues

U.S. Forestry Patrol		\$	5,240
Army Corps of Engineers Patrol			2,750
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			4,241
State Fees For Services:			
Finance and Administration Cabinet	\$	7,146	
Sheriff Security Service		<u>13,138</u>	20,284
Circuit Court Clerk:			
Fines and Fees Collected			657
Fiscal Court			15,019
County Clerk - Delinquent Taxes			2,255
Commission On Taxes Collected			63,564
Fees Collected For Services:			
Advertising Fees		545	
Auto Inspections		2,207	
Accident and Police Reports		112	
Serving Papers		17,480	
Carrying Concealed Deadly Weapon Permits		1,040	
Add-on Fees		14,160	
Other Fees		485	
Insurance Reimbursement		4,980	
Miscellaneous		<u>2,087</u>	43,096
Interest Earned			202
Borrowed Money:			
State Advancement		36,190	
Bank Note		<u>5,500</u>	<u>41,690</u>
Total Revenues			<u>198,998</u>

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
 RANDALL ARMITAGE, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 1, 2007 through October 2, 2007
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 37,145

Other Salaries 18,599

KLEFPF Salaries 3,839

Contracted Services-

Vehicle Maintenance and Repairs 5,933

Materials and Supplies-

Office Materials and Supplies 3,602

Uniforms 2,740

Auto Expense-

Gasoline 9,119

Other Charges-

Dues 660

Postage 109

Transporting Prisoners 341

Miscellaneous 2,651 \$ 84,738

Debt Service:

State Advancement 36,190

Notes 5,500

Interest 130 41,820

Total Expenditures

126,558

Net Revenues

72,440

Less: Statutory Maximum

54,706

Excess Fees

17,734

Less: 2006 Training Incentive Benefit

3,302

Less: 2007 Training Incentive Benefit

3,387

6,689

Excess Fees Due County for 2007

11,045

Payments to Fiscal Court - June 14, 2007

10,000

December 27, 2007

750

10,750

Balance Due Fiscal Court at Completion of Audit

\$ 295

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
NOTES TO FINANCIAL STATEMENT

October 2, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BATH COUNTY
 NOTES TO FINANCIAL STATEMENTS
 October 2, 2007
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Bath County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Bath County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of October 2, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of January 9, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,273,265

BATH COUNTY
NOTES TO FINANCIAL STATEMENTS
October 2, 2007
(Continued)

Note 4. Federal Contracts

- A. The former Bath County Sheriff's office contracted with the United States Department of Agriculture to provide patrols in the Daniel Boone National Forest. The former Bath County Sheriff's office expended \$5,240 for deputy salaries and was reimbursed \$5,240.
- B. The former Bath County Sheriff's office contracted with the Army Corps of Engineers to provide patrols at Cave Run Lake. The former Bath County Sheriff's office expended \$2,750 for deputy salaries and was reimbursed \$2,750.

Note 5. Sheriff's Office Vacancy

The former Sheriff (Randall Armitage) resigned on October 2, 2007 and the new Sheriff (John Snedegar) was not appointed until November 7, 2007. There was no interim Sheriff between the above dates, leaving the Sheriff's office vacant from October 3, 2007 through November 6, 2007.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive
The Honorable Randall Armitage, Former Bath County Sheriff
The Honorable John Snedegar, Bath County Sheriff
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Bath County Sheriff for the period January 1, 2007 through October 2, 2007, and have issued our report thereon dated July 22, 2008. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bath County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Bath County Sheriff's financial statement for the period January 1, 2007 through October 2, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Bath County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 22, 2008

COMMENT AND RECOMMENDATION

BATH COUNTY
RANDALL ARMITAGE, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2007 through October 2, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of adequate segregation of duties. All office staff collected receipts including the bookkeeper. The bookkeeper prepared daily checkouts and posted to the receipts ledger. Furthermore, she prepared, posted, mailed all checks for disbursements and could sign checks. She also completed the bank reconciliations and agreed bank balances to the ledgers. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. The former Sheriff should have either segregated these duties or implemented additional oversight to strengthen internal controls.

Former Sheriff's Response: None.

